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FOR IMMEDIATE RELEASE

June 20, 2012

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City of Burlington Responds to Moody's Investors Service Downgrade

Moody's Investors Service announced today that it is downgrading the City of Burlington's general obligation debt rating from A3 to Baa3 with a negative outlook.

What follows is a statement by Mayor Miro Weinberger in response to Moody's downgrade, as well as several key reasons why Burlington's financial management is now heading in the right direction:

"The Moody's downgrade recognizes what Burlingtonians have long known – the financial management of the City by the past administration was problematic in numerous ways, particularly with respect to the \$17 million cash pool loan to Burlington Telecom. Today's downgrade by Moody's reminds us that, while the past administration is gone, the damage done by its past actions is lasting and will take time and serious work to repair.

The analysis by Moody's lays out a roadmap to financial recovery that includes reduced City reliance on short-term borrowing and a reduction of cash pool loans to Burlington's various enterprises. This roadmap confirms the prudence of numerous rehabilitative actions taken over the last year, including new initiatives by my administration during the last 2 and 1/2 months that will positively shape the coming year."

The downgrade will increase the cost of municipal borrowing short-term and long-term, but remains "investment grade." The decrease from A3 to Baa3 of the City's general obligation debt rating will have a significant impact on the cost of future borrowing. For example, the CAO's office estimates that the downgrade could result in an interest rate on long-term debt as much as 1.5% higher on the planned issuance of \$3 million in general fund long-term debt during FY13, which will result in additional interest of \$55,000 in the first year. However, this rating is still "investment grade" and the City does not anticipate that it will limit the City's ability to take on the additional general obligation debt planned for FY13.

Mayor Weinberger's FY13 budget will eliminate the operating deficit in the Water and Wastewater Funds cited by Moody's as one of three major "challenges" faced by the City.

Weinberger highlighted the elimination of the deficits as a key element of his budget in his letter to the City Council on June 15, stating: "The most troubling finding of the FY11 audit was that the City has very limited liquidity. The Burlington Telecom situation is by far the largest driver of this situation and that, of course, remains unresolved. However, as of today, the Water and Wastewater funds also owe seven figure loans to the City's cash pool. This budget will eliminate those loans by the end of FY13." The Water and Wastewater Funds both are increasing rates charged to customers by 5% in FY13 to enable them to pay back their pooled cash borrowings by June 30, 2013. Based on expected cash flow in both funds resulting from the increased rates, the City expects the Water Fund to be debt free by the end of FY13, and the Wastewater Fund debt free by the end of FY14.

The Moody's analysis focuses on short-term borrowing in FY11 that has improved substantially in FY12 and will continue to improve in FY13.

During FY12, the City has reduced its reliance on Tax Anticipation Notes to fund operations substantially. At the end of last year, we had \$11 million outstanding on these notes. When 2012 ends this month, we expect that borrowings under this note will not exceed \$3 million – an \$8 million improvement in liquidity over the course of FY12. In addition, work has been underway for several months to convert short-term debt at the airport to stable, affordable permanent debt.

While the FY13 budget includes important steps towards repairing the City's credit ratings, considerable work remains.

What follows is a statement by Mayor Miro Weinberger regarding the work ahead:

"In the 2 and 1/2 months since the new administration began we have been focused on a budget that moves the City in the right direction. Work to improve stability and strengthen our balance sheet will not end with passage of the budget. I intend to meet personally with the representatives of Moody's before Labor Day to discuss our plans to further address liquidity and other concerns expressed in today's ratings announcement, and to develop further action steps with the City Council in the months ahead. I am confident that the City is now heading in the right direction, and we will gain momentum as the year progresses."

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